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Court Appointed Receiver
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9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**

11 In re

12 EAGAN AVENATTI, LLP

13 Debtor
14
15

Case No. 8:18-CV-01644-VAP-KES

**RECEIVER'S SIXTH INTERIM
REPORT**

Date: No Hearing Required
Time:
Place:

1 Pursuant to the Joint Stipulation between Judgment Debtor Eagan Avenatti,
2 LLP (“EA”) and Michael Avenatti (“Avenatti”) and Judgment Creditor Jason Frank
3 Law, on February 13, 2019, I (Brian Weiss) was appointed as the Receiver of EA
4 (the “Appointment Order”) [Docket No. 53]. This is my report for the period ended
5 August 31, 2019.

6 The purpose of this report is to provide:

- 7 • A narrative of material events;
- 8 • A financial report;
- 9 • An accounting of the income and expenses incurred in the
10 administration of EA, including the Receiver’s fees and expenses.

11 **Efforts by the Receiver to Identify, Quantify and Recover Assets and Material**
12 **Events**

13 • I have performed extensive analyses of EA banking transactions and
14 identified approximately fifty parties that may have received transfers from EA that
15 may be avoidable and recoverable by the receivership estate under applicable State
16 laws. Landau Gottfried & Berger LLP (“LGB”) sent letters to persons and entities
17 identified by me who received such transfers for the return of those transfers to the
18 estate. LGB is continuing communications with those transferees or their
19 respective legal counsel concerning the estate’s claims and any defenses asserted by
20 the transferees and attempting to resolve the estate’s claims. In some instances,
21 LGB determined that the transfers are not avoidable because the payments were in
22 satisfaction of legitimate obligations incurred by EA. In other instances, LGB
23 determined that the transferee is no longer in business or is located outside of and
24 has no business operations within the United States. In other instances, LGB
25 received responses to my demand letters requesting additional information about
26 my claim seeking repayment of the transfers. LGB has substantively responded to
27 those requests but, to date, LGB’s efforts have not resulted in any settlements or
28 settlement offers. Accordingly, after reviewing the exchanges between LGB and

1 the transferees or their legal counsel and further discussions with LGB, I authorized
 2 LGB to complete the preparation of and to file asset recovery complaints. LGB is
 3 now prepared to begin filing avoidable transfer recovery complaints. At the same
 4 time, LGB is continuing to communicate with transferees of EA's assets to
 5 informally resolve the estate's claims, subject to court approval.

6 • In litigation entitled *Eagan Avenatti, LLP v. Stoll, et al., etc.*, Case No. 30-
 7 2011-00483570 [consolidated with Case No. 30-2013-00627604]¹, pending in the
 8 Superior Court of California, County of Orange, defendant Stoll, Nussbaum &
 9 Polakov ("SNP") filed a second amended complaint (the "SAC") against EA,
 10 alleging various claims arising from EA's purported diversion of legal fees claimed
 11 as owed to it as contingency fee co-counsel with EA in litigation resolved in the
 12 client's favor. LGB, at my instruction, cooperated with SNP by providing financial
 13 and other information about this receivership case, explaining why litigation against
 14 the estate would not be in the interests of either party and why I would not accept
 15 service of the FAC unless and until the District Court approved a motion requiring
 16 me to do so, and offering to allow SPN a claim against the receivership estate for
 17 the contractual amount of its claimed fee. SPN rejected that offer and my demand
 18 that it obtain leave of this Court prior to proceeding against me on the SAC.
 19 Instead, SNP served on me and filed a request for entry of default on that pleading.
 20 At my request, LGB filed an objection to the default. Notwithstanding my
 21 objection, the clerk of the court has entered a default (but not a default judgment)
 22 against EA. I have instructed LGB to move to set aside entry of the default. -SPN
 23 also served on me both a subpoena and a request to produce documents. LGB has
 24 objected to both of those discovery pleadings on numerous grounds. Although,
 25 pursuant to the Appointment Order, Avenatti has no authority to act for EA, on or
 26

27 ¹ Two parties in this consolidated case also commenced litigation against EA and certain former firm
 28 attorneys in the Santa Barbara Superior Court, *Parrish, et al., v. Michael Avenatti, et al.*, Case No.
 19CV01686.

1 about July 22, 2019, Avenatti purported to serve and file an answer on behalf of EA
2 to SNP's SAC; in that pleading, Avenatti identified himself as the "Attorney" EA
3 and other cross-defendants. I have instructed LGB to notify the California State
4 Bar of that unauthorized filing by Avenatti;

5 • In the prior reporting period, EA's former client Geoffrey E. Johnson filed a
6 complaint entitled *Johnson v. Avenatti, et al.*, Case No. 30-2019-01076162-CU-PN-
7 CJC, in the Superior Court of California, County of Orange. The complaint asserts
8 various claims against EA and certain former attorneys and a staff member of the
9 firm for various claims arising from the purported improper diversion of funds from
10 a settlement achieved on Mr. Johnson's behalf. At my instruction, LGB
11 communicated with plaintiff's counsel about that claim and provided information
12 about this receivership, explained why litigation against the estate would not be in
13 the interests of either party and why I would not accept service of the complaint
14 unless and until the District Court approved a motion requiring me to do so, and
15 offering to allow plaintiff's claim against the receivership estate for the contractual
16 amount to which he would be entitled pursuant with his engagement agreement
17 with EA. To date, I have not received notice that Mr. Johnson's counsel has sought
18 relief from the District Court to serve that complaint on me and or that Mr. Johnson
19 is agreeable to the settlement proposal made to his counsel by LGB. Instead, in this
20 Reporting Period, Mr. Johnson's counsel filed a request for entry of default against
21 EA. At my request, LGB filed an opposition to that request on the ground that
22 under California law the receivership estate is not a proper party unless and until
23 leave to pursue litigation against me as the Receiver is obtained from the District
24 Court. Notwithstanding my objection, the clerk of the court has entered a default
25 (but not a default judgment) against EA. I have instructed LGB to move to set
26 aside entry of the default. At about the same time Mr. Johnson served a document
27 request and form interrogatories on me, as the Receiver. LGB has objected to that
28 discovery, as well.

1 • Prior to this reporting period former EA client Gregory Barela and Talitha
2 Barela commenced an arbitration through JAMS against Michael Avenatti,
3 Avenatti & Associates, EA and certain of the firm's attorneys for various claims
4 arising from the purported improper diversion of funds from a settlement achieved
5 on Mr. Barela's behalf. My counsel and I met with Mr. Barela's attorney about that
6 claim and provided information about this receivership, explained why litigation
7 against the estate would not be in the interests of either party, and offering to allow
8 Mr. Barela's claim against the receivership estate for the contractual amount owed
9 to him pursuant with his engagement agreement with EA. Thereafter, LGB
10 received communications from JAMS stating that the claimants intended to pursue
11 the arbitration. During this Reporting Period, Avenatti filed a motion to stay the
12 JAMS arbitration, arguing, among other things, that prosecuting the matter to
13 judgment while criminal charges are pending against Avenatti would violate his
14 Constitutionally protected right against self-incrimination. In response, the
15 claimants requested that the proceeding be dismissed without prejudice so that they
16 could seek relief in the Superior Court;

17 • In April 2019, former EA clients, William Parrish and Timothy Fitzgibbons
18 commenced litigation entitled *Parrish, et al. v. Avenatti, et al.*, Case No.
19 19CV10686, in the Superior Court of California, County of Santa Barbara, against
20 Avenatti, EA and others. The complaint asserts causes of action against the
21 defendants for, among other things, professional negligence, breach of fiduciary
22 duty and fraud. At my request, LGB has communicated with the plaintiffs' counsel
23 about those claims, the assets and potential liabilities of the receivership estate, and
24 settlement. They also informed plaintiffs' counsel that I would not voluntarily
25 appear in that action unless and until plaintiffs filed a motion before the District
26 Court for leave to proceed against the estate and obtained an order approving that
27 request. To date, I have not received notice that such motion has been filed.
28

1 • The receivership estate is pursuing an interest in a Honda jet indirectly
2 owned by Avenatti and a third-party which has been seized by the IRS to pay taxes
3 claimed as owed by Avenatti. EA had used its funds to pay part of the purchase
4 price of the jet and, for that reason, my counsel and I believe the estate has a right
5 to recover that sum upon the sale of the jet. Discussions with multiple parties
6 asserting an interest in the jet are on-going to sell the jet and resolving competing
7 claims against the anticipated sale proceeds. Those discussions have continued,
8 including through an “all-hands” conference call with counsel for the IRS and all
9 parties (through their respective counsel) asserting a financial claim in the jet. To
10 date, the dispute over the disposition of the jet has not been resolved,
11 notwithstanding that the failure to immediately sell that asset creates additional
12 expenses which likely will diminish the net value available upon the sale of that
13 asset. Accordingly, I have instructed LGB to continue to attempt to resolve the
14 disputed issues. Most recently, in response to a request by one of the parties who is
15 a member with Avenatti in a limited liability company (Passport 420 LLC) which is
16 the record owner of the jet, LGB produced documents explaining and documenting
17 the sources and flow of funds used to purchase the jet.

18 • Recently, I learned that Lisa Storie-Avenatti (Avenatti’s former spouse)
19 caused a writ of execution to be issued by the Orange County Family Law Court
20 presiding over the Avenatti marital dissolution proceeding is pending. The writ
21 was levied by the Orange County Sheriff’s office against art works in the
22 possession of a third-party art storage facility, which assets were paid for by EA
23 and are assets of the receivership estate. During this Reporting Period, LGB
24 successfully objected to and obtained a temporary stay of the Sheriff’s sale of the
25 art. Pursuant to that stay, LGB has prepared a complaint against Ms. Storie, and
26 Avenatti and his controlled entities to set aside and recover EA assets (including the
27 art) pursuant to the California Voidable Transfer Act and for a judicial
28 determination that the art is property of the receivership estate. Additional steps

1 will need to be taken in the next Reporting Period to secure the art until its
2 ownership can be determined through a judicial proceeding.

3 • During this Reporting Period, I learned that EA's former landlord, 520
4 Newport Center Drive LLC had obtained a Judgment against EA in the amount of
5 \$242,874.39 and had recorded an Abstract of Judgment in that amount in Los
6 Angeles County.

7 • Based on my assessment, as of the date of this report, and subject to further
8 investigation, the key assets potentially available for recovery include:

9 • Attorneys' fees from active client cases, most of which are
10 contingency-based;
11 • Artwork (see above) and office furniture and equipment, which may be
12 subject to an enforceable Asset Purchase Agreement by which X-Law
13 Group purportedly purchased those assets from EA. Certain of the
14 assets also may be subject to a Superior Court Order and a Marital
15 Dissolution Agreement between Avenatti and his former spouse, Lisa
16 Storie-Avenatti and to a Judgment lien asserted by Jason Frank Law;
17 • EA funds used to purchase an interest in the Honda jet owned by
18 Passport 420 LLC (an entity in which Avenatti claims an ownership
19 interest). As discussed above, the jet has been seized by the IRS and
20 currently is held in a third-party aircraft storage facility. I have been
21 working with LGB and counsel for the IRS to reach an agreement for
22 the sale of the jet.

23 • As previously reported, LGB has preparation a motion to authorize the sale
24 of these assets (both X-Law Group and Jason Frank Law may claim an interest in
25 the office furniture and equipment), as well as art work which is now held by the
26 Orange County Sheriff's office pursuant to a writ of execution obtained by Ms.
27 Storie. It is still my intention to file a motion for authority to sell these assets and,
28

1 as necessary, to commence litigation to determine the receivership estate's
 2 ownership interest in those assets.

3 • As also previously reported, LGB and I have been required to respond to
 4 claims by or on behalf of Avenatti to obtain at no cost Avenatti, and without EA
 5 client approval, unfettered access to and a copy of all of EA's client files and EA
 6 business and financial records. In connection therewith, LGB has responded to
 7 requests for information by the California State Bar, including in the form of a
 8 declaration signed under penalty of perjury and filed in a pending Bar proceeding
 9 against Avenatti. Shortly after that declaration was filed, Avenatti filed a motion in
 10 the criminal proceeding against him, *United States of America v. Avenatti*, Case No.
 11 SACR 19-61-JVS, pending in the United States District Court, Central District of
 12 California, for access to those documents. At my instruction, LGB opposed that
 13 motion on the grounds that I have repeatedly offered to make relevant documents
 14 available to Avenatti on reasonable terms, which offers he has ignored or rejected.
 15 At the August 26, 2019, hearing on that motion the Court denied Avenatti's request.
 16 Shortly thereafter, Avenatti informally agreed to the general terms I previously
 17 offered for access to documents. If Avenatti performs those terms, reasonable
 18 access to EA documents will be made to him (through IT consultants to be retained
 19 at his sole expense).

20 **Financial Report**

21 As of August 31, 2019, I am holding pursuant to the Appointment Order
 22 \$6,265.51 in cash. As of the date the Appointment Order, EA did not have cash in
 23 its bank accounts.

24 **Summary of EA's Monthly Income and Expenses**

25 From the date of the Appointment Order through August 31, 2019, the EA
 26 receivership estate has incurred no operating costs. The professional fees incurred
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during this reporting period and since my appointment as the Receiver include the following:

Professional	Fees & Costs Incurred	Fees Paid	Total Fees Due
Receiver & Force Ten Partners, LLC	August 2019 \$7,357.50 See Exhibit A	\$0	\$152,046.68
Landau Gottfried & Berger LLP	August 2019 \$88,909.15	\$0	\$367,424.98

As described in this report, I am continuing to carry out my court-ordered duties and my efforts are ongoing. I will report all material developments in future reports.

This report contains information that is subject to my continuous review, and every effort will be made to advise the recipients of any significant changes or corrections.

I hereby declare that this report is accurate to the best of my knowledge.

Executed at Newport Beach, California on September 11, 2019.

BRIAN WEISS, RECEIVER